STATE TAX COMMISSION
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TAXABLE VALUE

YOUR 1995 PROPERTY TAXES AND PROPOSAL A

Proposal A Established Taxable Value

On March 15, 1994, Proposal A was adopted by Michigan voters. Proposal A established a new property tax base for Michigan which is known as Taxable Value. It provides that until the property is transferred (sold), Taxable Value may increase each year by no more than the inflation rate (2.6% for 1995) or 5%, whichever is less, plus the value of additions and losses. Additions and losses will be explained below. Prior to Proposal A, State Equalized Value (SEV) was always the base for the calculation of property taxes. Starting in 1995, Taxable Value will be the base for calculating property taxes. This change will help limit property tax increases for each individual parcel of property.

Assessed Value and Equalized Value Still Necessary

The Michigan Constitution still requires that assessments be established for each parcel of property according to the value of the property, uniformly and at 50 percent of the market value of a property, just as in the past. 1995 assessments are still subject to county and state equalization. If the market value of a property increases or decreases, its assessment and its equalized value will still increase or decrease in the same manner as the market.

> Example:
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> A property which had a 1994 State Equalized Value (SEV) of $50,000 and whose market value increases by 10% for 1995 will have a 1995 SEV of $55,000. This is the same as in the past. (This example assumes that there are no physical changes in the property such as a new building or improvement.)

Note: The examples in this paper illustrate the principles involved with property taxes under Proposal A. Please note that the 10% amount of increase is hypothetical. The value of your property may decrease or increase more or less than 10% depending on local real estate markets.

Calculating Taxable Value

The good news is, except for changes due to additions and losses, you will not pay property taxes on any SEV increase for your property over 2.6% because of the cap on Taxable Value.

> Example:
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> In the example above, the 1995 Taxable Value will be $51,300 even though the SEV is $55,000. The reason is that the Taxable Value is not allowed to increase by more than 2.6%. $50,000 + 2.6% = $51,300. 1995 property taxes will be calculated on Taxable Value, NOT SEV.

Where the SEV of a property decreases, the Taxable Value will also decrease. Also, for 1995, a property's Taxable Value may be increased by more than 2.6% only when a physical change to the property occurred before 1995 and was not reflected in the 1994 assessment. An example is a new garage.

Example:

A property with a 1994 SEV of $50,000 increased in value by 10% for 1995. The owner constructed a garage in 1994 which has an SEV of $4,000 (Market Value is $8,000). The 1995 SEV will be: $50,000 + 10% + $4,000 (garage) = $59,000.

The 1995 Taxable Value for this property will be $50,000 + 2.6% + $4,000 (garage) = $55,300. 1995 property taxes would be calculated on the Taxable Value of $55,300, NOT on the SEV of $59,000.

A physical loss on or before December 31, 1994 (tax day for 1995), such as a fire during 1994, would decrease the Taxable Value. To calculate the maximum 1995 Taxable Value, subtract losses from the 1994 SEV of the parcel, multiply the result by 1.026, and then add in additions.

Taxable Value is also limited by the fact that it cannot exceed the current State Equalized Value (SEV) of the property.

Example:

In the example above, if the value of the house increased by 1% instead of 10%, the 1995 SEV would be: $50,000 + 1% + $4,000 (garage) = $54,500 instead of $59,000.

Because $54,500 is less than the $55,300 (based on the increase of 2.6%), $54,500 would become the Taxable Value.

Transferred Properties

Proposal A states that in the year following a transfer (sale), the Taxable Value will be the property's SEV, regardless of the cap. Because transfers don't begin until January 1, 1995, Taxable Values will first be uncapped in 1996 for properties transferred (sold) in 1995. 1995 Taxable Values will not become uncapped because a property sold in 1994. Buyers of real estate in 1995 must report the sale and sales price to the local assessor on new STC Form (STC L-4260). The forms have been distributed to closing agents, realtors, assessors, supervisors and equalization departments.

Appealing to the March Board of Review

You may receive a property tax assessment increase notice through the mail prior to the March Board of Review. It will show a tentative SEV and tentative Taxable Value.

If you believe that your assessment or tentative SEV is over 50 percent of True Cash Value or is not uniform, you may appeal the assessment to the local March Board of Review. If you believe that your Taxable Value is calculated improperly, you may appeal the Taxable Value to the March Board of Review. You may also appeal your property assessment classification and the denial by the assessor of a qualified agricultural property exemption to the March Board of Review. Note that a denial of a homestead exemption may NOT be appealed to the local Board of Review, but may be appealed to the Michigan Department of Treasury.